

City Council – Action Request Form

Date: September 9, 2019

To: Mayor, Mayor Pro Tempore, and Members of the City Council

From: Ben Rowe, Assistant City Manager

Council Action Requested:

Resolution Approving Acquisition of 226 South Liberty Street, Assumption of Current Lease with the State of North Carolina, and New Lease with New Winston Museum (South Ward)

Strategic Focus Area: Economic Vitality and Diversity

Strategic Objective: No

Strategic Plan Action Item: No

Key Work Item: Yes



Summary of Information:

In April 2019, the Mayor and City Council approved over \$33 million in new financing to address emerging capital needs, including \$1.75 million for the acquisition and demolition of the former United States Bankruptcy Court building. The Conservation Fund and the Creative Corridors Coalition have been in negotiations with Merz Family Investments, LLC, the owners of the property, to purchase the property and develop it into open space that would honor the life of Peter Oliver, a former slave who purchased his freedom and settled on a farm in this area. Since the Council’s approval of the funding, there have been on-going discussions about potential uses for the property, including repurposing the first floor space into a museum. The site includes four parcels totaling 1.537 acres, and the building includes 18,927 square feet (PIN# 6835-25-2001). The building is 27 years old. Currently, there is one tenant in the building—the State of North Carolina—which leases 2,490 square feet of the second floor.

At the City Council’s Finance Committee meeting on August 12th, City staff and representatives from New Winston Museum presented the framework for a potential lease in which the museum would repurpose the first floor into museum space. Council Members requested additional information about the condition of the building, operating costs, New Winston Museum’s finances, and their planned capital campaign to raise funds to develop the space.

Committee Action:

| Committee | Finance 9/9/2019 | Action | Approval |
|------------|---|----------------|-------------------------------|
| For | Mayor Pro Tempore Burke, Council Member MacIntosh | Against | Opposed: Council Member Adams |

Remarks:

The following information has been included as attachments to this Council Action:

- Facility assessment report from the City's Property and Facilities Management Department and Stormwater Management
- Operating revenues and expenses for the building for 2018 and year-to-date 2019
- 10-year pro forma developed by City staff showing operating revenues and expenses as well as projected capital investments
- Executive summary of New Winston Museum's capital campaign feasibility study
- New Winston Museum's current financial position
- Projected 5-year budget for New Winston Museum, assuming lease of first floor space in former U.S. Bankruptcy Court building

Acquisition of Property from The Conservation Fund

As part of The Conservation Fund's due diligence process, it conducted environmental assessments of the site. Contaminants were discovered in a confined location; however, subsequent assessments did not uncover more widespread contamination. The Conservation Fund staff has informed City management that the owners are committed to cleaning the site but would not schedule the remediation until the Mayor and City Council approve the purchase from The Conservation Fund. The Conservation Fund has negotiated a purchase price of \$1.55 million and is on schedule to close at the end of September. The appraised value totaled \$1.89 million; the property's tax value totals \$1.659 million, generating \$9,911 in City property tax revenue.

As part of the City's due diligence process, staff from the Property and Facilities Management Department and Stormwater Management conducted an assessment of the building and property in early July. Overall, the staff found the exterior and interior of the building to be in good condition. The report from these departments noted issues with a HVAC unit, windows, landscaping/fencing, and most significantly the roof. The 10-year pro forma includes projected capital investments, primarily replacement of the roof and HVAC systems. City staff would seek long-term financing such as two-thirds bonds or limited obligation bonds to address these needs.

The attached resolution authorizes the purchase of 226 South Liberty Street from The Conservation Fund for \$1,643,455, which includes the purchase price and The Conservation Fund's costs (e.g., environmental assessment and attorney's fees).

Assumption of Lease with the State of North Carolina

Merz Family Investments, LLC currently leases 2,490 square feet of the second floor of the building to the State of North Carolina. The current term is one year with two one-year renewal periods; the State of North Carolina is in the first renewal period, which runs from March 1, 2019 through February 28, 2020. The annual lease payment totals \$24,900. Under the terms of the lease, the owner is responsible for all utilities, except telephone, exterior maintenance, adequate parking, and building maintenance, including HVAC and lighting. Due to the potential repurposing of the first floor into museum space, City staff have discussed with State officials options for securing access to the second floor. The attached resolution approves the City's assumption of the existing lease with the State of North Carolina. At the end of the renewal periods, City staff will explore entering into a long-term lease with the State. At the Finance Committee meeting on August 12th, Council Members asked about the market value of the

second floor space. The current property manager has indicated \$14-\$15 per square foot would be a reasonable market rent.

Proposed Lease with New Winston Museum

In the weeks following the Council’s approval of funding to acquire the property, representatives from New Winston Museum and the Creative Corridors Coalition met with City management to discuss potential uses of the property. The discussion focused on the concept of entering into a triple net lease whereby the City would lease space to New Winston Museum for a nominal amount and the museum would be responsible for the cost to upfit, operate, and maintain the space. The City would be responsible for major maintenance of the mechanical systems and other major building components, including the parking lot. After additional discussions with New Winston Museum officials, City management proposes the following key provisions for a long-term lease with the museum:

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| Term | 10 years with one 10-year extension |
| Rental rate | \$1 per month (\$12 per year) |
| Income from second floor rental | <ul style="list-style-type: none"> - City would retain first \$10,000. - New Winston Museum would receive the balance (\$14,900 based on current lease). |
| Operating and maintenance responsibilities <ul style="list-style-type: none"> - Custodial services - Waste disposal - Landscaping - Pest control - Snow removal - Routine maintenance - First floor carpet, painting, finishes | Managed by New Winston Museum |
| Major maintenance <ul style="list-style-type: none"> - HVAC system - Roof - Parking lot repairs, striping - Electrical systems - Security for second floor tenant | Managed by the City of Winston-Salem |

Because the State of North Carolina cannot sublease space, they would pay their rent directly to the City. The City would retain the first \$10,000 to cover the cost of property insurance and to create a maintenance reserve for the building. The City would pass-through the balance to New Winston Museum to cover the operating costs of the second floor (e.g., utilities), as well as other building operations.

Because the City would enter into a long-term lease with New Winston Museum, the City would have to conduct an upset bid process according to G.S. 160A-269. The attached resolution

authorizes the City Manager to enter into a lease agreement with New Winston Museum, subject to the upset bid process.